

**CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
DOCKET NO. 2004-1-E
TESTIMONY SUMMARY OF JACQUELINE R. CHERRY
IN RE: CP&L -- FUEL ADJUSTMENT CLAUSE REPORT**

The Audit Department Staff traced the fuel information, as filed in the Company's required monthly filings, to the Company's books and records. The audit covered the period January 2003 through December 2003. The purpose of the audit was to determine if Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. had computed and applied the monthly Fuel Adjustment Clause in accordance with the approved clause. To accomplish this, Staff examined the components surrounding the operation of the clause.

The examination consisted of an analysis of Account #151--Fuel Stock, sample of receipts to the Fuel Stock Account--Account #151, verification of charges to Nuclear Fuel Expense--Account #518, an analysis of Purchased Power and Interchange, verification of KWH Sales, an analysis of Spot Coal purchasing procedures, a comparison of coal costs, the recomputation of the Fuel Costs Adjustment Factor, verification of Deferred Fuel Costs, and the recomputation of the True-up for Over/(Under)-Recovered Fuel Costs.

Staff analyzed the cumulative (under)-recovery of fuel costs that the Company had incurred for the period January 2003 through December 2003, totaling (\$6,038,891). Staff added the projected (under)-recovery of (\$675,055) for the month of January 2004, the projected over-recovery of \$484,488 for the month of February 2004, and the projected over-recovery of \$203,989 for the month of March 2004 to arrive at a cumulative (under)-recovery of (\$6,025,469) as of March 2004. The Company's cumulative (under)-recovery, per its testimony in Docket No. 2004-1-E, as of December 2003 totals (\$6,038,886) and as of March 2004, the cumulative (under)-recovery totals (\$6,025,464).

Staff's Purchased Power figures for January 2003 through December 2003 and the resultant over/(under)-recovery monthly amounts for January 2003 through December 2003 reflects Staff's compliance with the recently revised section of the S.C. Fuel Statute (updated as of February 2004). This Statute addresses "fuel costs related to purchased power". Section 7 (2)(b) of the revised Statute stated that the delivered cost of economy purchases, including transmission charges, could be included in Purchased Power Costs if those type of purchases were proven to be "less than the purchasing utility's avoided variable costs for the generation of an equivalent quantity of electric power". After Staff applied this revised Statute to the examined economic purchases in comparison to the applicable avoided costs, Staff's adjustment, on a total system basis, increased the review period's Purchased Power Costs by \$6,806,574. This amount consists of two parts. As mentioned previously, according to the new Statute section, transmission charges could be included in the delivered cost of economy purchases. It should be noted that because of the current revisions to the S.C. Fuel Statute just recently passed in February 2004, the Company was not able to

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provide Staff with all of the transmission charges, as well as their source documents, that could have been applicable to the Company's economy transactions. However, the Audit Staff did examine and include economy purchases' transmission charges totaling \$13,545,364 (Part I). Also, based on the new Statute section, after comparing the economy purchases (with the additions, when available, of transmission charges) to the Company's applicable avoided costs, Staff's avoided costs adjustment totaled (\$6,738,790) (Part II). This figure reflects the usage of an avoided cost as a lesser price, at that point in time, over a purchase price. Staff examined the Company's monthly avoided cost figures and based on a comparison against the Company's economy purchases, Staff's avoided cost adjustment totaled (\$6,738,790) (Part II). Therefore, the net effect, as mentioned previously on a total system basis to Purchase Power Costs is an increase of \$6,806,574, $\{ \$13,545,364 + (\$6,738,790) \}$. Staff notes that on a total system basis, there is no difference between the Company's and the Staff's Purchased Power Costs for the review period. Also, on a S.C. jurisdictional basis, the difference between the Company's and the Staff's cumulative (under)-recovery balances as of actual December 2003 and as of estimated March 2004 is minimal (\$5).

As stated in Carolina Power & Light d/b/a Progress Energy Carolinas, Inc.'s S.C. Retail Adjustment for Fuel Costs Rider, fuel costs will be included in base rates to the extent determined reasonable and proper by the Commission. Accordingly, the Commission should consider the (under)-recovery of (\$6,025,469) along with the anticipated fuel costs for the period April 1, 2004 through March 31, 2005, for the purpose of determining the base costs of fuel in base rates effective April 1, 2004. The (\$6,025,469) (under)-recovery figure was provided to the Commission's Utilities Department.

(3/23/04)